

WEST VIRGINIA INSURANCE COMMISSION
Review Requirements Checklist
Group Life Insurance

REVIEW REQUIREMENTS	REFERENCE	COMMENTS
FORMS		
General Requirements		
General Filing Requirements	Note:	Rate Filings for Life Insurance are not required. When a Filing contains a complete policy, actuarial support for the filing may be submitted.
Fee	33-6-34	The Filing Fee is \$50.00 per Form Filing, Effective 6/30/2002.
Inclusions	Informational Letter 64 33-3-8	Include in the Submission : One copy of the filing; a cover letter describing the nature of the filing (Include the Company's NAIC Identifying Number on the Cover Letter.); a Return Copy of the Cover Letter; a Pre-Paid Label or a Large Envelope with Postage Paid. The company transacting insurance in this State must be licensed by the Insurance Commissioner and authorized to conduct the appropriate lines of business for the filing submitted.
Execution	33-6-15	Every insurance policy shall be executed in the name of and on behalf of the insurer by its officer, attorney in fact, employee, or representative duly authorized by the insurer. A facsimile signature of any such executing individual may be used in lieu of an original signature, the countersignature shall be in original handwriting, except in vending machine policies. Electronic signatures are allowable on electronic policies.
Time Frame	33-6-8b	The filing must be filed 60 days prior to use. Analysts make every effort to resolve any issues within 60 days and approve the filing, unless before the 60 days expires the filing is disapproved.
Certifications		
Compliance	33-6-8 and 33-13-2	A Certification of Compliance with laws of your Company's state of domicile and with West Virginia Code, signed by a company official is requested with a policy filing.
Readability	33-29-5a (1) & (2)	A Certification of Readability, Flesch Score, signed by a company official is required. The main text in the policy must be of uniform size and no smaller than 10-point type, one point leaded; except for specification pages and certain tables. The minimum required Flesch Score is 40. You must certify that each form contained in the filing achieves such minimum score. The Method for determining the Flesch Score is found in WV Code 33-29-5(b) (1-4) & (e).
Legal Requirements of a Group	NAIC Model Group Life Insurance Bill	
Six Basic Characteristics	Responds to WV 33-14	<ol style="list-style-type: none"> 1) The states define a "true" group as having at least 10 people covered under one master contract. 2) Coverage is generally available without individual medical examinations. 3) The master group policy is issued to the employer, trust, union, or the association. Certificates of insurance are issued to the individual insureds. 4) The insurance cannot be obtained to benefit the employer, trust, union, or other association. It must be for the benefit of the covered employee or member, and their dependents. 5) Premiums are based on the age of the group as a whole. Premium may be paid entirely by the policyowner or, paid jointly by the policyowner and the insured. If premium is paid entirely by the policyowner it is a "noncontributory plan," and all eligible employees or members must be covered. If premium is paid by both policyowner and insured the plan is a "contributory plan," and at least 75% of all eligible employees or members must be covered. The employer or association is always required to pay some portion of the premium. Insureds are, by law, not permitted to contribute more than a specified amount. 6) Individuals covered under the plan are classified in such a way (usually by salary, or time on the job) that they do not choose the benefit levels.
Eligible Groups	33-14-(2 thru 5a)	
Contributory/ Non-contributory Plans		In group life insurance, under a contributory plan, the insured's employees "contribute" to the plan financially. In a Contributory Plan, the employer must pay a percentage of the premiums. In order for the group to be eligible for coverage there must be 75% participation of the eligible employees. Under a Noncontributory Plan, the employer pays the full amount (100%) of the policy premium; the employee pays nothing. This plan requires 100% employee participation.
Employee Group Policy	33-14-2	The Master Policy is issued to the employer or to the trustees of a fund established by an employer. The Policy must cover then (10) employees at date of issue.
Labor Union Group Policy	33-14-4	The policy must cover at least twenty-five (25) members at date of issue. The policy amounts of insurance must be based upon some plan precluding individual selection either by members or by the union.

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Employer and Labor Union Group (Trustee Group Policy)	33-14-5	The trustees of a fund established by two or more employers or by one or more labor unions or by a combination, shall be the policyholders to insure the employees or union members. All the employees or all the union members are eligible. The premiums are paid by the trustees. No policy may be issued on which the entire premium is derived from funds contributed by the insured persons specifically for their insurance. The policy must cover at date of issue at least one hundred (100) persons and not less than five (5) persons per employer unit. The amount of insurance must be based upon some plan precluding individual selection either by the insured persons or by the policyholder, employers or unions.
Credit Union Group Policy	33-14-5a	The Credit Union is the policyholder. All the members of the credit union are eligible for insurance (this includes a class such as public employees). The premium is paid by the policyholder from funds of the credit union. No part of the premium may be paid from funds contributed or charged to the insured members specifically for their insurance. The policy must insure at least twenty-five (25) eligible members, excluding any whose evidence of individual insurability is not satisfactory to the insurer. The amount of insurance under the policy must be based upon some plan which precludes individual selection either by the members, the credit union or the credit union trustees.
Dependent Coverage	33-14-7	Any policy issued to an Employee Group, Labor Union Group, Combination labor Unions or Employers Group may be extended to insure members against loss due to the death of their spouses and minor children under specified conditions in 33-14-7 (a, b, c & d).
Professional Associations & Trusts	Group Policy Requirement	Professional associations and trusts require participation of one hundred (100) or more of covered members.
Standard Policy Provisions	33-14-8 Sections 9 thru 18	
Grace Period	33-14-9	There shall be a provision providing a grace period of thirty-one (31) days for the payment of any premium due except the first, during which period the death benefit coverage continues in force.
Incontestability	33-14-10	There shall be a provision that after a policy has been in force for two (2) years from its date of issue, the validity of a group life policy shall not be contested, except for nonpayment of premiums. After the 2 year period and during the life of the insured, no statement made by a person insured under the policy relating to his insurability shall be used in contesting the validity of the insurance.
Entire Contract	33-14-11	There shall be a provision providing that the application attached to and made part of the master contract is the entire contract.
Representations	33-14-11	There shall be a provision that all statements made by the policyholder or by the persons insured are considered representations and not warranties.
Evidence of Insurability	33-14-12	There shall be a provision that the insurer reserves the right to require a person eligible for insurance to furnish evidence of individual insurability satisfactory to the insurer as a condition to part or all of his coverage.
Misstatement of Age	33-14-13	The policy shall contain a provision specifying an equitable adjustment of premiums or of benefits or of both to be made in the event the age of a person insured has been misstated. The method used for making the adjustment must be stated clearly.
Facility of Payment	33-14-14	There shall be a provision that allows payment of policy proceeds to a close relative or friend if no beneficiary is named, or living.
Individual Certificate	33-14-15	There shall be a provision that states that the insurer will issue to the policyholder for delivery to each person insured an individual Certificate of insurance setting forth a statement of the protection provided, to whom the benefits are payable and the rights and Conditions regarding conversion. The provisions of the Certificate must be equivalent to the provisions of the Master Policy.
Conversion	33-14-16	There shall be a provision that provides the insured the right to convert to an individual policy when the insured's coverage is terminated because of termination of employment, or the elimination of a class of insureds.
Termination of Master Policy	33-14-17	There shall be a provision that if the group policy terminates, every person insured thereunder who has been insured for at least three years under a group policy issued five years or more prior to such termination date, shall be entitled to have issued by the insurer an individual life insurance policy.
Death Pending Conversion	33-14-18	There shall be a provision that if an insured dies after coverage has terminated, but before the end of the 31-day conversion period, the beneficiary will receive the group life policy benefit.
Notice of Conversion Rights	33-14-20	Any individual insured under a group life insurance policy should be given notice of the existence of his conversion rights at least fifteen days prior to the expiration of the conversion period specified in the policy.

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Group Conversion Privilege		
Conversion Terminating Employees Conversion cont.		Terminating employees are allowed to "convert" to individual life coverage without evidence of insurability. An individual policy will be issued: 1) Upon payment of the first premium and completion of an application within 31 days of termination of group membership; 2) If a master group policy is in force on the date of the individual's termination, providing the individual has been insured for at least three (3) years; 3) In an amount equal to the group amount applicable to the insured upon termination minus any applicable amount of group insurance for which the insured becomes eligible upon termination from the first group. Premium rates for these conversion policies must be based on the insurer's individual premium rates for an individual at the Prospective insured's attained age.
Conversion Privilege	NAIC Model Legislation	A conversion privilege must be available upon termination of the master group policy. The maximum amount of coverage available under this model bill is the lesser of: \$10,000 or, the amount of coverage in force under the group plan minus the amount of group coverage for which the insured becomes entitled to receive (under a new group policy) within 31 days of termination or, \$2,000. Dependent coverage is sometimes provided under employer sponsored group plans in amounts less than provided the covered employee. Typically, the spousal coverage is \$5,000 or less with a conversion right of \$2,000.
Settlement of Death Benefit	33-14-30	Settlement shall be made upon receipt of due proof of death and, at the insurer's option, surrender of the certificate and/or proof of the interest of the claimant. If stated, the period for settlement shall not exceed two months from the receipt of such proofs.
Interest on Proceeds	33-14-30a	The proceeds of a life insurance policy become due on the date of death of the insured. Interest shall be computed from the date of death to the date of payment, at the current rate of interest on proceeds left on deposit with the insurer.
Group Credit Life Insurance	33-14-3	The purpose of group credit life insurance is to cover the unexpected death of an individual who has obligated himself/herself to time payment obligations.
Debtor Group Policy Eligibility	33-14-3 (a)	The lives of a group of individuals may be insured under a policy issued to a creditor, who is deemed the policyholder, to insure debtors of the Creditor. Those who are eligible are debtors of the creditor whose indebtedness is payable in installments or within eighteen (18) months from the initial date of the debt, or a class of debtors determined by conditions pertaining to the indebtedness or giving rise to the indebtedness.
Premiums	33-14-3 (b)	The premium for the policy shall be paid by the policyholder, either from the creditor's funds, or from charges collected from the insured debtors, or from both. A policy on which no part of the premium is to be derived from the collection of such identifiable charges must insure all eligible debtors, or all except any as to whom evidence of individual insurability is not satisfactory to the insurer.
75% Participation	33-14-3 (c)	The policy may be issued only if the group of eligible debtors is receiving new entrants at the rate of at least one hundred persons yearly, or is expected to receive at least one hundred new entrants during the first policy year. The policy must reserve to the insurer the right to require evidence of individual insurability if less than 75% of the new entrants become insured.
Amount of Insurance	33-14-3 (d)	The amount of insurance on the life of any debtor shall not exceed the amount owed by him or which is repayable in installments to the creditor.
Payee	33-14-3 (e)	The insurance shall be payable to the policyholder. The unpaid indebtedness shall be reduced or extinguished to the extent of such payment.
Lending Institution		An insurance company may issue a master policy to a lending institution and the lending institution issues a certificate to the borrower to the extent of the loan. If the borrower dies, the loan is paid (decreasing term insurance is used).
		Credit disability may also be offered by the lender to provide coverage of the installment payments should the borrower become disabled. Such payments begin after a "waiting period" that can range from 7 days, 14 days or 30 days. The renewal provision of the master policy requires 100 new insureds annually.

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RETIREMENT PLANS And Related Plans		
Plans used by corporations	Tax – qualified / Non-qualified	Retirement plans are either Tax qualified or Non-qualified. Retirement plans are tax qualified if they directly benefit employees and their beneficiaries, and do not discriminate in favor of officers, stockholders and highly paid personnel. Tax qualified plans provide a tax deduction for employers for their contributions and tax relief to employees for their contributions. Non-qualified retirement plans benefit a few key employees or executives to the exclusion of the majority of employees. Thus, for a plan to be tax qualified, every employee must be treated the same.
Key Man Life Insurance		Businesses often insure persons who vitally contribute to the success of their business. The death benefit indemnifies the business against losses that could occur if the key person would die. Funds received by the business would help secure the continuity of the business and provide funds to seek a capable replacement. These funds would also help with any interruption in business due to the loss of the key employee.
Buy-Sell Agreement		<u>The Buy-Sell Agreement</u> is a formal written arrangement specifying the terms and conditions for the retirement of, or passing of, a business interest. Characteristics include: 1) It is a contractual agreement and not a life insurance policy. Life insurance is used for the purpose of “funding” a written agreement and provide funds for the retirement of the business interest caused by death. 2) The agreement establishes a price for the business interest removing the need to negotiate with heirs. 3) The agreement binds all parties mandating that, due to a death, the survivor(s) must buy and the decedent’s estate (executor/administrator) must sell the business interest for the price stipulated in the agreement. 4) A properly written buy-sell agreement will not only address the issue of death, but will also define how, when and the terms under which a business interest will be retired due to a total and permanent disability or the retirement of a partner or stockholder. 5) Parties to a buy-sell agreement may be a partner or partners, stockholder or stockholders, a trust or a corporation. There are two types of buy-sell agreements: 1) <u>Cross Purchase</u> – The parties to a cross purchase agreement are the owners of the Business. The insurance funding of this agreement is owned by the business owners. 2) <u>Entity Purchase</u> – With this agreement, the business is the entity agreeing to retire the owner’s interest in the business. Any insurance funding in this agreement is owned by the business (the entity).
Split-Dollar Plan		<u>The Split-Dollar Plan</u> is an arrangement where a designated employee and his employer split the cost of a life insurance purchase for the benefit of the employee. A policy is purchased on the life of the designated employee and the employer pays a portion of the premium each year so that at any time the total employer contributions to date do not exceed the sum of the policy cash value at the end of the current policy year. Each year, the employee pays the remaining portion of the premium. This arrangement may be used as a reward to a valued employee without risk or cost to the employer. This arrangement also enables the employee to purchase life insurance for much less than he otherwise would pay for such protection. If the employee dies while the split-dollar plan is in effect, the employer receives from the proceeds an amount equal to the cash value of the policy or his premium payments and the employee’s beneficiary receives the balance of the proceeds.
Non-Corporate qualified plans		Keoghs, IRAs (traditional and Roth), SEPs, 401 (k) Plans, 403 (b) Plans
Keogh plan	Keogh Act Federal Jurisdiction	The <u>Keogh plan</u> is available to: Self employed persons with no other source of earned income; Employed persons who have another separate business; Self employed persons who may also be covered under a corporate retirement plan. The premium payments are tax deductible. If a self employed person has a Keogh plan, he must make similar contributions for his employees. The contribution limit is 25% of net income or \$30,000 whichever is less.
IRA Traditional	Federal Jurisdiction Int. Rev. Code 408B	The <u>Traditional Individual Retirement Account</u> features include: 1) May be tax deductible depending on income, but earnings are tax deferred; 2) Contribution limits – single - \$3,000 for yrs 2002-2004, \$4,000 for yrs. 2005-2007; \$5, 000 for yr 2008 & after; 3) Cannot be 70 ½ during taxable year for which contribution is made; contribution may be made as late as date tax return is due; Can contribute 100% of earned income up to the stated limits; 4) Penalty for early withdrawal (prior to age 59 ½) is 10% of amount withdrawn, plus taxed as ordinary income; 5) May have unlimited number of IRAs; 6) Can start withdrawing at age 59 ½ and must begin withdrawals by age 70 ½ to avoid penalties.
IRA Roth Retirement Plans cont.	Federal Jurisdiction Int. Rev. Code 408A	The <u>Roth Individual Retirement Account</u> features include: 1) The contributions are not deductible; 2) The income is tax free; 3) Distributions may begin at age 59 ½; 4) The individual contribution limit may not exceed the annual limits in accordance with Section 408A and 219 of the Internal Revenue Code. Tax free Roth IRA distributions are permitted after five (5) years in the event of the owner’s death or disability or, with a limit of \$10,000 for first time home buyers. Participation in a Roth IRA is phased out to federal taxpayers filing single with adjusted gross income between \$95,000 and \$110,000 and to married couples filing jointly with gross adjusted income between \$150,000 and \$160,000. Participation in any employer sponsored retirement plan does not prevent a taxpayer adopting a Roth IRA.
SEP Plan		The <u>Simplified Employee Pension Plan</u> provides employers with an employee pension plan that is easier to administer than traditional plans. Employee eligibility requires a minimum age of 21 years, a minimum service of 3 years of the preceding 5 years. A maximum 15% of an employee’s salary may be deposited by the employer into an IRA for the employee.

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401 (k) Plan	Fed. Tax Code Section 401 (k)	The <u>401(k) Plan</u> allows individual employees to deposit part of their compensation into a tax-deferred plan rather than receive it as wages. In some cases, the employer matches a percentage of these wages, thereby providing the individual with an investment incentive.
403 (b) Plans	Fed. Tax Code Section 403 (b)	The <u>403 (b) Plan</u> is designed for eligible employees of public schools, religious and certain non-profit charitable organizations to supplement their retirement income. These plans are tax-deferred annuities (also know as tax sheltered annuities). The annuity fund is accumulated during the working years and the pay out period comes at an age when the annuitant may receive more favorable tax treatment. Eligible employees can elect to defer taxable income through payroll deduction plans for future use. Deductions are made from the employee's gross wages, reducing the taxable amount of income for the year earned and deferring the tax on the income until the annuitant reaches retirement age. If the annuitant dies before the deferred annuity begins to pay, the designated beneficiary receives a lump sum payment of all premium paid by the annuitant plus a certain percentage of interest.
SOCIAL SECURITY		
Formerly Known as: Old Age Survivors, Disability and Health Insurance / OASDHI	Federal Jurisdiction	<u>Social Security Benefits</u> are purchased through taxes paid into the system through payroll tax deductions from covered workers and matching employer contributions. The deductions are based on a percentage of the worker's income up to a maximum amount. The benefits provided to covered workers are: Disability benefits to workers; Medicare benefits; Retirement benefits to workers and their dependents; Survivor's benefits to a worker's family. Retirement benefits and Survivor benefits are relevant to group life insurance.
Retirement Benefit	Federal Jurisdiction	<u>Workers' Retirement Benefits</u> vary depending on factors such as average earnings, age at retirement, and other available income at time of Retirement. Benefits are adjusted periodically to reflect the cost of living and applied Social Security recipients. For a worker to receive Retirement benefits the worker must be a minimum of 62 years old at present; however, this is considered "early retirement" and benefits are reduced. Full benefits are available to workers who wait until age 65 to retire (age 67 after the year 2000). Besides the covered worker, some other individuals are eligible for retirement benefits: The worker's spouse if age 62 or over; Spouse under 62 if caring for the worker's minor or disabled child(ren); Unmarried children under age 18 (under age 19, if full-time student); Unmarried children severely disabled before age 22.
Survivor Benefit	Federal Jurisdiction	The <u>Worker's Survivor Benefit</u> , a lump-sum payment of \$255, is made to the "survivor" of the covered worker upon his death. If the covered worker has no survivors, no payment is made. A survivor is considered to be: The worker's spouse if age 60 or over; The worker's spouse at any age if caring for the worker's minor (under age 16) or disabled child; Unmarried children under age 18 (under age 19, if full-time student); Unmarried children severely disabled before age 22; Dependent parents (in certain situations).
Worker Groups Excluded	Federal Jurisdiction	The main groups of <u>workers excluded from Social Security</u> are railroad workers and federal employees hired before 1984. Federal employees hired after 1984 are covered. Railroad workers contribute to their own railroad retirement.

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TAX TREATMENT OF INSURANCE		
Group Life Premiums and Proceeds		The employer receives a tax deduction for premiums paid. The death benefit is treated in this manner: 1) The first \$50,000 is received income tax free by the beneficiary. 2) The premium for the first \$50,000 of death benefit is not taxable to the employee. The premium for death benefits exceeding \$50,000 is subject to an income tax charge to the employee based on a special government tax table. However, the employer continues to receive a tax deduction. 4) If the income tax charge of premium for the death benefit in excess of \$50,000 is not made, then the death benefit over \$50,000 will be taxed as ordinary income to the beneficiary at the decedent's tax rate.
Modified Endowment Contracts MECs	Technical and Miscellaneous Revenue Act of 1988 (TAMRA) Federal Legislation	A Modified Endowment Contract is a permanent life insurance policy issued after June 20, 1988, which does not meet a seven pay test; or any life insurance contract that is exchanged for such a contract as this. MECs are single premium and other high premium interest sensitive life policies which were deemed to be sold for investment more than for life insurance purposes by TAMRA.
The Seven Pay Test		The seven pay test states that a permanent life contract will be called a MEC if: The accumulated premium amount paid under the contract at any time during the first seven years exceeds the sum of the net level premiums, which would have been paid on or before such time, if the contract in question provided for paid-up future benefits after the payment of seven level annual premiums.
Consequences		<ul style="list-style-type: none"> * If a contract fails the seven payment test, its status as a MEC is permanent. All MECs issued during any 12-month period by an insurer to the same policyholder are treated as one MEC to prohibit circumvention of the TAMRA legislation. * Under TAMRA, life insurance policies which are characterized as MECs are subject to adverse tax implications if their substantial cash values are withdrawn before the annuity starting date as loans or withdrawals. These loans or partial withdrawals before the annuity starting date are taxed on a "last in first out" (LIFO) basis, meaning the money used to initiate the contract is usually tax free while subsequent interest on the "initial money" is taxable. * The federal TAMRA legislation restricts the tax-deferred savings/investment fund flexibility designed in single premium, guaranteed whole life and universal life products. TAMRA views MECs in the same light as deferred annuities with respect to loans or withdrawals. * If an individual intends to keep the MEC policy until his/her death, the tax significance of the MEC rule is meaningless: It only applies to loans or withdrawals during the lifetime of the policyholder. If withdrawn prior to age 59 ½, a 10% penalty applies in addition to regular income taxes. * If the policy is characterized as a MEC, the interest accumulations accrued by the policy will not be taxed unless, and until, a loan or withdrawal is made. * Tax treatment of MEC policyholders age 59 ½ or older is no different if not better, than the tax treatment of individuals in this same age group holding certificates of deposit (CDs).